

## From La Niña to El Niño

The two-year La Niña, which recently ended, was blamed for the worst drought in decades to hit the U.S. Cotton Belt last year and the U.S. Corn Belt this year. Now that La Niña, which is caused by the cooling of surface waters off the

Pacific equatorial coast of South America, has resolved, the opposite phenomenon, El Niño, is developing.

According to the latest outlook from the National Oceanic and Atmospheric Administration, the El Niño/La Niña Southern Oscillation (ENSO) is currently neutral but the chances of an El Niño developing in September are high. Already the surface water temperatures in the equatorial Pacific are 0.5° C above normal.

El Niño can cause a number of problems in prime crop-growing and dairy-producing regions of the world and as such should be watched. The

weather effects of an El Niño are typically strongest in the September through November period in the Southern Hemisphere and then strengthen in the Northern Hemisphere during the December through February period.

### Southern Hemisphere Drought

During El Niño events, most of eastern Australia, where the bulk of the nation's milk and wheat are produced, is typically much drier than normal. New Zealand's North Island also tends to be dry in the September through November period but then returns to a more normal weather pattern in the December through February time frame. Widespread dryness, however, would likely curtail pasture growth and milk production in Oceania.

Sections of eastern and northern Brazil, where some of the nation's commercial crop enterprises are located, and Venezuela are typically drier than normal during an El Niño. Other parts of South America, particularly Argentina, Chile, and southern Brazil are more prone to flooding.

El Niño also tends to cause widespread drought in India, which is already dry.

*Continued on page 2*



*El Niño can cause a number of problems in prime crop-growing and dairy-producing regions of the world and as such should be watched.*

### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

La Niñas tend to produce more extreme weather in agricultural areas around the globe due to excessive heat and drought compared with El Niños, which generally mean wetter weather and reduced heat. La Niñas have been more

intense and longer in duration during the past 10-12 years, while El Niños have been weaker and shorter in duration.

One of the strongest El Niños ever occurred in 1997-98. It was responsible for the death of 24,000 people as well as economic damage that reached \$34 billion. It caused drought in Southeast Asia, severe winter storms along the West Coast of the United States, floods in East Africa, and a mix of floods and drought in China.

Over the centuries, El Niño has been blamed for many things, including the sinking of the Titanic in 1912 and the heavy snowfall that explorers Lewis and Clark encountered crossing of the Bitterroot Mountains in the winter of 1904-05.

Chances are the pending El Niño will wreak havoc someplace in the world—possibly Australia and/or California, but it's impossible to tell how big the impact will be and whether it will be large enough to be price changing. **MCT**

# Precarious Markets...

Dairy product markets are expected to remain firm and move seasonally higher. Global markets are in balance, but any hiccup in either supply or demand

could send markets in the opposite direction. U.S. milk production is expected to contract due to high feed costs and limited supplies. EU output is also seasonally declining but expected to be near last year's levels. All eyes are on Oceania as it gears up for its new production season. So far, production indicators look good but this can change. The U.S. corn crop went from being a bumper one on Memorial Day to one of the worst ever by the Fourth of July. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.8285	1.7950	17.65	1.7700	15.95	0.5390	1.2620
Sep	1.8750	1.8500	19.30	1.8450	17.25	0.5640	1.3545
Oct	1.9000	1.8750	19.55	1.8550	17.70	0.5730	1.4350
Nov	1.9000	1.8750	19.70	1.8300	17.90	0.5830	1.4750
Dec	1.8950	1.8700	19.70	1.7800	17.75	0.5850	1.4750
Jan	1.8700	1.8450	19.40	1.7300	17.50	0.5765	1.4800

\* CME prices.

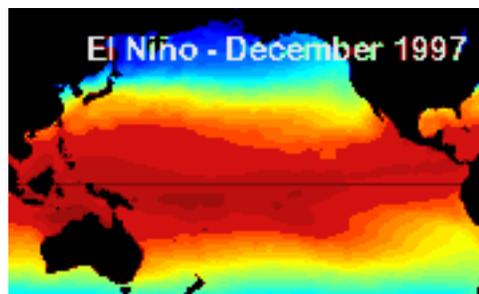
\*\*NASS prices.

## Warmer and wetter...

*Continued from page 1*

El Niño's impact through November on U.S. dairy regions will be felt most intensely in California, Arizona, and New Mexico. Most of Arizona, far southern California, and far western New Mexico are expected to receive much heavier rainfall than normal through November. The entire South is also wetter than usual. Moving into the winter months, the impact of El Niño spreads with heavier rain extending into the prime dairy areas of California, while the northern tier of the United States tends to have milder temperatures.

El Niño aside, drought is expected to persist or worsen across much of the United States into November. Kansas, Nebraska, Missouri, Oklahoma, West Texas, Wyoming, Colorado, Nevada, Utah, southern Iowa, western Illinois, and eastern New Mexico will see worsening conditions, according to the National Weather Service. However, El Niño could usher in a warmer winter across the Corn Belt, which could be more conducive to rebuilding soil moisture this winter.



The image above shows the warm (red) surface water in the Pacific caused by the 1997-98 El Niño. *Source: NOAA.*

Of all of the major dairy states, California often takes the brunt of El Niño due to excessive rainfall. However, that's not always bad. For instance, the above-normal rainfall that fell across the state during the 1992-93 El Niño brought an end to severe long-term drought conditions that began in late 1986.

The effects of El Niño on Europe are less clear. At this time, it is also uncertain how severe the pending El Niño will be and hence its impact on global dairy markets. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email [info@mctdairies.com](mailto:info@mctdairies.com).